

**LA PROMISE FUND**  
*(Formerly LA's Promise)*  
(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2016**

*(With Comparative Totals for the  
Year Ended June 30, 2015)*



Gurseley | Schneider LLP  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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CERTIFIED  
PUBLIC ACCOUNTANTS  
& ADVISORS

**Independent Auditor's Report**

To the Board of Directors  
LA Promise Fund  
*(Formerly LA's Promise)*  
Los Angeles, California

We have audited the accompanying financial statements of LA Promise Fund (a California nonprofit public benefit corporation), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LA Promise Fund as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

The financial statements of the Organization as of and for the year ended June 30, 2015 were audited by other auditors whose report dated December 11, 2015, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gursey | Schneider LLP*

September 27, 2016  
Los Angeles, California

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Statements of Financial Position  
June 30, 2016 and 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,662,490	\$ 859,073
Pledges receivable	1,440,271	815,476
Prepaid expenses and other assets	35,276	49,189
Property and equipment, net	<u>59,265</u>	<u>31,603</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,197,302</u>	<u>\$ 1,755,341</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accrued liabilities	\$ 475,416	\$ 304,092
<b>NET ASSETS</b>		
Unrestricted	907,052	636,749
Temporarily restricted	<u>1,814,834</u>	<u>814,500</u>
<b>TOTAL NET ASSETS</b>	<u>2,721,886</u>	<u>1,451,249</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,197,302</u>	<u>\$ 1,755,341</u>

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 795,048	\$ 2,196,285	\$ 2,991,333	\$ 2,656,724
Special event income, net of \$410,923 and \$356,566 of direct costs in 2016 and 2015	664,337	-	664,337	1,298,208
Other income	16,384	-	16,384	5,168
Subtotal	1,475,769	2,196,285	3,672,054	3,960,100
Net assets released from restrictions:	1,601,861	(1,601,861)	-	-
<b>Total Revenues and Support</b>	<b>3,077,630</b>	<b>594,424</b>	<b>3,672,054</b>	<b>3,960,100</b>
<b>EXPENSES</b>				
Program services	2,598,730	-	2,598,730	2,478,014
General and administration	207,403	-	207,403	343,530
Fundraising	228,378	-	228,378	294,868
<b>Total Expenses</b>	<b>3,034,511</b>	<b>-</b>	<b>3,034,511</b>	<b>3,116,412</b>
<b>CHANGE IN NET ASSETS BEFORE ACQUISITION</b>	<b>43,119</b>	<b>594,424</b>	<b>637,543</b>	<b>843,688</b>
Fair value of net assets acquired in the acquisition of LA Fund (see Note 3)	227,184	405,910	633,094	-
<b>CHANGE IN NET ASSETS</b>	<b>270,303</b>	<b>1,000,334</b>	<b>1,270,637</b>	<b>843,688</b>
<b>NET ASSETS, Beginning of Year</b>	<b>636,749</b>	<b>814,500</b>	<b>1,451,249</b>	<b>607,561</b>
<b>NET ASSETS, End of Year</b>	<b>\$ 907,052</b>	<b>\$ 1,814,834</b>	<b>\$ 2,721,886</b>	<b>\$ 1,451,249</b>

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Functional Expenses  
For the Year Ended June 30, 2016  
(With Comparative Totals for the Year Ended June 30, 2015)

	2016			Total	2015 Total
	Program Services	General and Administration	Fundraising		
<b>Personnel:</b>					
Salaries	\$ 1,211,330	\$ 133,577	\$ 112,787	\$ 1,457,694	\$ 1,538,529
Health insurance	95,336	10,647	8,945	114,928	133,260
Retirement plan	20,597	2,343	1,926	24,866	6,424
Payroll taxes	99,657	10,883	9,227	119,767	126,564
<b>Total personnel</b>	<b>1,426,920</b>	<b>157,450</b>	<b>132,885</b>	<b>1,717,255</b>	<b>1,804,777</b>
<b>Other Operating Expenses:</b>					
Bank charges	-	2,541	-	2,541	553
Conferences and meetings	3,094	3,164	298	6,556	7,776
Depreciation	18,682	1,263	1,729	21,674	19,375
Development	35	-	26	61	-
Dues and subscriptions	18,540	206	975	19,721	9,938
Equipment rent and maintenance	16,456	1,003	904	18,363	11,114
Food and catering	47,338	7,884	1,024	56,246	86,979
Insurance	42,684	927	3,685	47,296	28,378
Licenses	-	465	-	465	557
Mileage	7,599	210	1,149	8,958	-
Miscellaneous	3,330	225	308	3,863	5,399
Occupancy	91,816	10,139	8,520	110,475	112,374
Office supplies	44,540	702	942	46,184	61,571
Outside services	88,081	2,585	36,408	127,074	121,410
Postage	1,846	162	475	2,483	2,826
Printing	6,332	330	265	6,927	4,941
Professional services	481,796	7,883	30,431	520,110	565,963
Scholarships	180,637	-	-	180,637	161,170
School expenses	22,984	60	524	23,568	2,254
Software and small equipment	21,515	5,603	3,405	30,523	48,200
Student / teacher transportation	35,550	2,826	530	38,906	-
Teacher stipends	533	-	-	533	-
Telephone	30,299	1,619	2,960	34,878	38,052
Travel	8,123	156	935	9,214	22,805
<b>Total other operating expenses</b>	<b>1,171,810</b>	<b>49,953</b>	<b>95,493</b>	<b>1,317,256</b>	<b>1,311,635</b>
<b>Total Functional Expenses (2016)</b>	<b>\$ 2,598,730</b>	<b>\$ 207,403</b>	<b>\$ 228,378</b>	<b>\$ 3,034,511</b>	
<b>Total Functional Expenses (2015)</b>	<b>\$ 2,478,014</b>	<b>\$ 343,530</b>	<b>\$ 294,868</b>		<b>\$ 3,116,412</b>

See Accompanying Notes to Financial Statements

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Cash Flows  
For the Years Ended June 30, 2016 and 2015

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 1,270,637	\$ 843,688
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	21,674	19,375
Gain on sale of property and equipment	-	(3,924)
Fair value of net assets acquired in the acquisition of LA Fund	(633,094)	-
(Increase) decrease in assets:		
Pledges receivable	(549,345)	(783,862)
Prepaid expenses and other assets	13,913	(340)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	117,868	85,036
	<u>241,653</u>	<u>159,973</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash proceeds from the acquisition of LA Fund	599,915	-
Proceeds from sale of property and equipment	-	5,000
Cash paid for purchases of property and equipment	(38,151)	(37,983)
	<u>561,764</u>	<u>(32,983)</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
	803,417	126,990
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	859,073	732,083
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>		
	<u>\$ 1,662,490</u>	<u>\$ 859,073</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>		

See Accompanying Notes to Financial Statements



**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

**NOTE 1 – GENERAL AND ORGANIZATION**

LA Promise Fund (formerly named LA's Promise) is a California nonprofit public benefit corporation whose mission is to graduate every student attending an LA's Promise neighborhood school college and career ready. Through a robust school turnaround model, LA Promise Fund partners with a cadre of schools committed to ensuring that students growing up in poverty receive an excellent education.

As of June 30, 2016, LA's Promise acquired the assets and assumed the liabilities of the Los Angeles Fund for Public Education ("LA Fund") to create an organization with even more reach and depth. Together, the combined entity will empower students and reach beyond the borders of the original LA's Promise schools to hundreds of thousands of students throughout Los Angeles County. Effective June 30, 2016, LA's Promise is now named LA Promise Fund.

LA Promise Fund's vision is to transform underperforming schools into vibrant community hubs that graduate all students prepared for successful and healthy lives, thereby radically improving the future of an entire community.

LA's Promise Neighborhood is an enrollment zone that includes two large South LA high schools (Manual Arts and West Adams Prep) and one middle school (John Muir) operated by LA's Promise in a first-of-its-kind performance contract with the Los Angeles Unified School District. Within this zone, LA's Promise transforms chronically failing public schools, opens new schools and remakes schools into community hubs that offer comprehensive support services for students and families. By doing this, LA's Promise will prepare every child in LA's Promise Neighborhood to be college and career-ready, healthy and successful in life.

Over the coming years, LA Promise Fund's goal is to adopt feeder schools to build a K-12 educational pipeline serving over 10,000 children. Part of this goal is for LA Promise Fund to also open charter schools to further advance its mission and vision and ensure it serves the most academically and socially disadvantaged students of LA's Promise Neighborhood.

In August 30, 2016, LA Promise Fund opened its first charter school (LA's Promise Charter Middle School) and LA Promise Fund is working to open its first high school (LA's Promise Charter High School) in August 2017.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Financial Presentation** – The financial statements are presented utilizing the accrual basis of accounting. LA Promise Fund recognizes contributions, including unconditional promises to give, as revenue in the period in which they are received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LA Promise Fund and changes therein are classified and reported as follows:

- Unrestricted net assets – These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

- *Temporarily restricted net assets* – LA Promise Fund reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. LA Promise Fund had \$1,814,834 of temporarily restricted net assets at June 30, 2016.
- *Permanently Restricted Net Assets* – These net assets are from donors who stipulate that resources are to be maintained permanently, but permit LA Promise Fund to expend part of the income (or other economic benefits) derived from the donated assets. LA's Promise has no permanently restricted net assets at June 30, 2016.

**Cash and Cash Equivalents** – Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at June 30, 2016 approximates its fair value.

LA Promise Fund maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. LA Promise Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Contributions and Pledges Receivable** – Unconditional contributions, including pledges recorded at estimated fair value, are recognized as revenues in the period received. LA Promise Fund reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Discounts for pledges (pledges due over one year) are recorded as reductions to contribution revenue and pledges receivable. Discounts increase contribution revenue when the pledge is received.

At June 30, 2016, LA Promise Fund evaluated the collectability of pledges receivable and no allowance for uncollectible pledges was considered necessary. All pledges receivable at June 30, 2016 are expected to be collected within a year.

**Property and Equipment** – Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$1,000 and the useful life is greater than two years. The estimated useful lives are as follows:

Furniture and Equipment	3-7 years
Leasehold Improvements	3 years

**Long-Lived Assets** – Long-lived assets such as property and equipment are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Further, long-lived assets held for sale are to be stated at the lower cost or fair market value less costs to sell. The LA Promise Fund has determined that no events occurred during the years ended June 30, 2016 that would give rise to impairment of its long-lived assets.

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Contributed Goods and Services** – Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no contributed services recognized by LA Promise Fund during the year ended June 30, 2016.

**Functional Allocation of Expenses** – The costs of providing programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. LA Promise Fund uses salary dollars to allocate indirect costs.

**Income Taxes** – LA Promise Fund is exempt from federal income and excise taxes and California franchise taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code and related state codes.

LA Promise Fund is required to evaluate its tax positions and recognize a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. If such issues exist, LA Promise Fund's policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2016.

LA Promise Fund's federal income tax and informational returns for tax years ending June 30, 2013 and subsequent years remain subject to examination by the Internal Revenue Service. The returns for California remain subject to examination by the California Franchise Tax Board for years June 30, 2012 and subsequent years.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Comparative Totals** – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2015 from which the summarized information was derived.

**Reclassifications** – Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported changes in net assets.

**Subsequent Events** – Subsequent events have been evaluated through September 27, 2016, the date the financial statements were available to be issued.

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

**NOTE 3 –ACQUISITION OF LOS ANGELES FUND FOR PUBLIC EDUCATION (“LA FUND”)**

On June 30, 2016, LA’s Promise acquired the assets and assumed the liabilities in LA Fund to expand its programs in Los Angeles County. LA Fund was a California nonprofit public benefit corporation and managed a range of in-school programs throughout Los Angeles County. In connection with the acquisition, LA Fund filed to dissolve its corporation. LA’s Promise changed its name to LA Promise Fund to reflect the activities and identity of the combined entities.

The following table presents the assets acquired and liabilities assumed, based on their fair values:

<u>Assets Acquired</u>	
Cash	\$ 599,915
Pledges receivable	75,450
Property and equipment, net	<u>11,185</u>
Net assets acquired	686,550
<u>Liabilities Assumed</u>	
Accounts payable	<u>(53,456)</u>
Fair value of net assets acquired in the acquisition of LA Fund	<u>\$ 633,094</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2016 consisted of the following:

Furniture and equipment	\$ 247,679
Leasehold improvements	<u>45,568</u>
	293,247
Less accumulated depreciation	<u>(233,982)</u>
Total	<u>\$ 59,265</u>

Depreciation and amortization expense for the year ended June 30, 2016 was \$21,674.

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2016 consist of the following:

Restricted for LA's Promise Programs	\$ 1,408,924
Restricted for LA Fund Programs	<u>405,910</u>
Total	<u>\$ 1,814,834</u>

Amounts were released from restriction during the year due to the passage of time restrictions for the temporarily restricted support.

**LA PROMISE FUND**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

**NOTE 6 – COMMITMENTS**

LA Promise Fund's rents office space under a lease agreement, which expires in September 2019. Future minimum payments under this lease are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 97,702
2018	100,619
2019	103,637
2020	<u>43,718</u>
Total	<u>\$ 345,676</u>

Rent expense under facility operating leases and other rental expenses for the year ended June 30, 2016 was \$110,474, which is included in occupancy in the statement of functional expenses.

**NOTE 7 - EMPLOYEE BENEFIT PLAN**

Employees participate in a 403(b) defined contribution plan whereby they contribute a portion of their salaries, tax deferred, into the plan. LA Promise Fund makes discretionary matching contributions to the plan each calendar quarter. Payments to the plan totaled \$24,866 for the year ended June 30, 2016.

**NOTE 8 - COLLABORATIVE AGREEMENT WITH LAUSD**

In October of 2008, LA Promise Fund and the LAUSD entered into a comprehensive collaborative educational services and performance agreement whereby LA Promise Fund and the LAUSD agreed to create a new model for delivery of LAUSD educational services in the City of Los Angeles, to improve schools and school communities, develop best practices and share them throughout the LAUSD. The LAUSD will utilize these educational services. The original agreements expired on June 30, 2013. However, on October 9, 2012, LAUSD approved the five year extension covering the period July 1, 2013, through June 30, 2018.